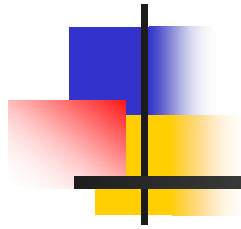


Five-Year Financial Outlook



November 14, 2006



The Foundation

- You need to be able see the complete picture in order to understand the problem
- Reviewed current expenditures and staffing and determine our core mission
- Establish priorities
- Identified options including reducing expenditures and increasing revenues

Investors should not rely on this
information when making
investment decisions (see slide 3)



DISCLAIMER

- The City files its official statements for bond offerings, audited financial statements, comprehensive annual financial reports, annual financial information, material event notices, and voluntary disclosures with the nationally recognized municipal securities information repositories (“NRMSIRs”) that are recognized by the SEC. The Five Year Financial Outlook will not be filed with the NRMSIRs and investors should not rely primarily upon the Five Year Financial Outlook to make investment decisions. The City will be submitting the Five Year Financial Outlook to the rating agencies, its bond insurers and other interested parties, and welcomes and encourages their careful review of this document. Readers are cautioned that the numbers presented in this document are the City’s best estimate for the next five years and do not represent actual performance. No representation is made by the City that as of the date this document is read that there is not a material difference between the City’s actual performance as of such date and the financial data presented in the Five Year Financial Outlook.

Investors should not rely on this
information when making
investment decisions (see slide 3)



Methodology/Approach

- Develop the base
 - Fiscal year 2007 Budget
 - Adjusted for future obligations
 - Built in Kroll Remediation Costs
- Identify the unmet needs/priorities
 - Pension
 - Reserves
 - Deferred Maintenance/Capital

Investors should not rely on this
information when making
investment decisions (see slide 3)



Methodology/Approach – (cont.)

- Identify the unmet needs (cont.)
 - Other Post Employment Benefits (OPEB)
 - Storm Water Runoff Compliance
 - ADA Compliance – Capital Improvements
 - Adequate Reserve Levels – Workers' Compensation Fund
 - Adequate Reserve Levels – Public Liability Fund

Investors should not rely on this
information when making
investment decisions (see slide 3)



Methodology/Approach – (cont.)

- Develop the “PLAN”
- Develop options to address each need
- Set your priorities
- Develop funding alternatives
 - Reduce costs
 - Increase revenues

Investors should not rely on this
information when making
investment decisions (see slide 3)



FUND WATER/WASTEWATER – DEFERRED MAINTENANCE/ CAPITAL IMPROVEMENTS

- Water - \$600 Million over next four years (\$766 million to fully comply with Department of Health Services Consent Decrees)
- Wastewater - \$650 Million over next four years (\$1 billion to fully comply with Consent Decrees)

Investors should not rely on this
information when making
investment decisions (see slide 3)



Key Assumptions

■ REVENUES

- Property Taxes – 3.5% growth in 2008, 2.0% growth thereafter (1% = \$4m)
- Sales Taxes – 2% growth in 2008, 3% growth thereafter (1% = \$2.7m)
- TOT – 6% growth in 2008, 5% growth thereafter (1% = \$.9m)
- Property Transfer Tax – 5% decline

Investors should not rely on this
information when making
investment decisions (see slide 3)



Key Assumptions (cont.)

- REVENUES – (Cont.)

- Other Revenues – 0% to 5% increase on average
- NO NEW REVENUES

- APPROPRIATIONS

- Salaries – 4% increase in 2008 (MEA & 127 only), 0% thereafter (1% = \$6m all units/GF only)

Investors should not rely on this
information when making
investment decisions (see slide 3)



Key Assumptions (cont.)

■ APPROPRIATIONS – (Cont.)

- Pension Payments can no longer remain at current amortization schedule – 28 years left – **City must increase its contribution**
- Funding added to eliminate the Waterfall
- OPEB funded can no longer remain Pay-As-You-Go
- City must payback SDCERS for previous retiree health costs

Investors should not rely on this
information when making
investment decisions (see slide 3)



Key Assumptions (cont.)

- APPROPRIATIONS – (Cont.)
 - Funding included for new facilities already under construction & other known contractual obligations
 - Need to materially fund deferred maintenance/capital
 - Need to begin building reserves

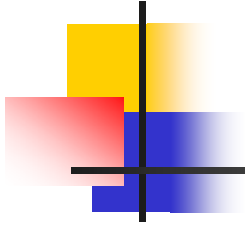
Investors should not rely on this
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investment decisions (see slide 3)



Key Assumptions (cont.)

- APPROPRIATIONS – (Cont.)
 - Vacancy factor (5.3%) adjusted to:
 - 3.5% in fiscal year 2008
 - 3.0% in fiscal year 2009
 - 2.5% in fiscal year 2010
 - 2.4% in fiscal year 2011
 - 2.3% in fiscal year 2012
 - Other appropriations increase 2% to 3%
 - Nothing factored in from BPR

Investors should not rely on this
information when making
investment decisions (see slide 3)



THE DEFERRED OBLIGATIONS

Investors should not rely on this
information when making
investment decisions (see slide 3)



PENSION UAAL – Approach

- Determine the Minimum
 - Set Actuarial assumptions – SDCERS
 - Determine methodology – SDCERS
 - Determine amortization – SDCERS
 - Calculate ARC – SDCERS
- Determine desired amortization – City
- Determine additional funding – City

Investors should not rely on this
information when making
investment decisions (see slide 3)



PENSION UAAL – Options

- Pay Annual Required Contribution (ARC)
 - Assumes in fy 2008 – 27 year amortization
 - Negative amortization for next 10 years
- Pay ARC +
 - \$10 million
 - 24 year amortization
 - 6 years of negative amortization

Investors should not rely on this
information when making
investment decisions (see slide 3)



PENSION UAAL – Options

(cont.)

- Pay ARC + (cont.)
 - **\$27 million**
 - **20 year amortization**
 - **No negative amortization**
 - \$47 million
 - 16 year amortization
 - No negative amortization

Investors should not rely on this
information when making
investment decisions (see slide 3)

PENSION

– All Funds Budget Impact

	<u>FY 08</u>		<u>FY 09</u>		<u>FY 10</u>		<u>FY 11</u>		<u>FY 12</u>	
	All	Gen'l	All	Gen'l	All	Gen'l	All	Gen'l	All	Gen'l
Pymts: ARC	\$156.2	\$121.6	\$159.6	\$124.1	\$164.1	\$127.4	\$169.5	\$131.5	\$175.5	\$135.9
Waterfall	\$8.3	\$6.4	\$8.3	\$6.4	\$8.3	\$6.4	\$8.3	\$6.4	\$8.3	\$6.4
Health Care Payback	\$7.2	\$5.6	\$7.2	\$5.6	\$7.2	\$5.6	\$7.2	\$5.6	\$7.2	\$5.6
Enhanced Pymt	\$27.0	\$20.8	\$27.0	\$20.8	\$27.0	20.8	\$27.0	\$20.8	\$27.0	\$20.8
Total Pension Pymt	\$198.7	\$154.4	\$202.1	\$156.9	\$206.6	\$160.2	\$212.0	\$164.3	\$218.0	\$168.7

G F Enhanced Pymt \$ 104.0M

Total: All Funds \$1.0375B General Fund \$1.0529B

Investors should not rely on this
information when making
investment decisions (see slide 3)



RESERVES – Options

- Strike the right balance
- 8% minimum
- As of June 30, 2006 – 4.8%
- Must decide how fast to get to 8%
- At current General Fund budget level, every 1% increase is approximately \$13 million

Investors should not rely on this
information when making
investment decisions (see slide 3)



RESERVES – Recommendation

- Reach: 6.0% in fiscal year 2008
- 6.5% in fiscal year 2009
- 7.0% in fiscal year 2010
- 7.5% in fiscal year 2011
- 8.0% in fiscal year 2012

Investors should not rely on this
information when making
investment decisions (see slide 3)

RESERVES

– General Fund Budget Impact

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Amount to be added to Reserve	\$4.8M	\$9.8M	\$6.9M	\$7.4M	\$7.8M

Total \$36.7M

Investors should not rely on this
information when making
investment decisions (see slide 3)



Deferred Maintenance/Capital

- Identify needs
- Cost it out
- Determine which items are truly maintenance and which are capital
- Pay-As-You-Go versus financing to improvements (20 yrs – level debt service)
- Determine physical capacity

Investors should not rely on this
information when making
investment decisions (see slide 3)



Deferred Maintenance/Capital

- ASSUMPTIONS

- Facilities:

- 50% of the improvements are Pay-Go/50% are bonded
 - \$5 Million spent in fiscal year 2008 (Pay-Go)
 - \$50 Million per year thereafter

Investors should not rely on this
information when making
investment decisions (see slide 3)



Deferred Maintenance/Capital - Program

- ASSUMPTIONS (cont.)
 - Streets & Storm Drains
 - 25% of the streets and storm drain projects are Pay-Go/75% are bonded
 - \$33 Million in fiscal year 2008
 - \$70 Million in fiscal year 2009
 - \$90 Million per year thereafter

Investors should not rely on this
information when making
investment decisions (see slide 3)



Deferred Maintenance/Capital – General Fund Budget Impact

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Project Values	\$38M	\$120M	\$140M	\$140M	\$140M
Cash flow Req.	\$15.725M	\$52.725M	\$66.975M	\$76.225M	\$85.475M

- Total Project Value \$578.000M
- Total Cashflow Req. \$297.125M
- Total Outstanding Debt \$379.750M

Investors should not rely on this
information when making
investment decisions (see slide 3)



Deferred Maintenance/Capital – Water & Wastewater

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	
Water	\$150M	\$150M	\$150M	\$150M	
Wastewater	\$162.5M	\$162.5M	\$162.5M	\$162.5M	

- Total Project Value Water \$600M
- Total Project Value Wastewater \$650M

Investors should not rely on this
information when making
investment decisions (see slide 3)



Other Post Employment Benefits (OPEB) – Retiree Health Care

- GASB 45
- UAAL \$1.38 billion
- Continue Pay-Go Approach
 - \$ 19.6M in fy 2007
 - \$ 54.4M in fy 2015
 - \$100.0M+ in fy 20xx
- Many of the same Pension type decision points are needed

Investors should not rely on this
information when making
investment decisions (see slide 3)



OPEB – Options

- Pay-Go
 - Pay-Go +
 - \$25M increments each year until ARC is reached
 - Pay ARC immediately – \$ 75M
- \$115M
- \$160M

Investors should not rely on this
information when making
investment decisions (see slide 3)

OPEB

– All Funds Budget Impact

	<u>FY 08</u>		<u>FY 09</u>		<u>FY 10</u>		<u>FY 11</u>		<u>FY 12</u>	
	All	Gen'l	All	Gen'l	All	Gen'l	All	Gen'l	All	Gen'l
Pay-As-You-Go	\$24.1	\$16.4	\$27.3	\$18.6						
Payment Into Trust	\$25.0	\$17.0	\$50.0	\$34.1						
ARC					\$75.0	\$49.7	\$81.5	\$54.0	\$88.4	\$58.6
Total OPEB Pymt	\$49.1	\$33.4	\$77.3	\$52.7	\$75.0	\$49.7	\$81.5	\$54.0	\$88.4	\$58.6

Total: All Funds \$363.2M

General Fund \$248.4M

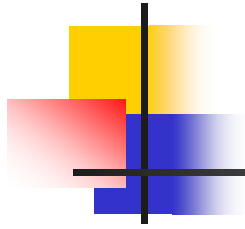
Investors should not rely on this
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investment decisions (see slide 3)



Storm Water Compliance

- Need to Apply for a New Permit
- Increased Compliance Costs
 - Storm Water
 - \$ 8M fiscal year 2008
 - \$15M - \$16M each year thereafter
 - Streets
 - \$10M fiscal year 2008
 - \$21M each year thereafter

Investors should not rely on this
information when making
investment decisions (see slide 3)



Storm Water Compliance

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Amount to be paid	\$18.2M	\$37.2M	\$37.1M	\$36.1M	\$36.1M

Total \$164.7M

Investors should not rely on this
information when making
investment decisions (see slide 3)



ADA Compliance

- Another piece of Deferred Maintenance
 - \$10M each year

Investors should not rely on this
information when making
investment decisions (see slide 3)



ADA Compliance

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Amount to be paid	\$10.0M	\$10.0M	\$10.0M	\$10.0M	\$10.0M

Total \$50.0M

Investors should not rely on this
information when making
investment decisions (see slide 3)



Worker's Compensation Fund

- Establish Reserve Policy
- Should be 50% to 70% of Outstanding Claims
- Current Claim Balance \$150M
- Target \$75M to \$105M
- Current Balance \$18.3M
- Get there over time

Investors should not rely on this
information when making
investment decisions (see slide 3)



Worker's Compensation Fund

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Amount to be paid	\$0.0M	\$5.0M	\$10.0M	\$10.0M	\$10.0M

Total \$35.0M

Investors should not rely on this
information when making
investment decisions (see slide 3)



Public Liability Fund

- Establish Reserve Policy
- Should be 50% to 70% of Outstanding Claims
- Current Claim Balance \$100M
- Target \$50M to \$70M
- Current Balance \$2.5M
- Get there over time

Investors should not rely on this
information when making
investment decisions (see slide 3)



Public Liability Fund

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Amount to be paid	\$5.0M	\$5.0M	\$5.0M	\$10.0M	\$10.0M

Total \$35.0M

Investors should not rely on this
information when making
investment decisions (see slide 3)



ACCUMULATIVE ENHANCED FUNDING – General Fund Budget Impact

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Pension	\$ 20.800M	\$ 20.800M	\$ 20.800M	\$ 20.800M	\$ 20.800M
Reserves	\$ 4.800M	\$ 9.700M	\$ 6.900M	\$ 7.300M	\$ 7.700M
Mtce/Cap.	\$ 15.725M	\$ 52.725M	\$ 66.975M	\$ 76.225M	\$ 85.475M
OPEB	\$ 17.000M	\$ 34.100M	\$ 28.800M	\$ 30.600M	\$ 32.400M
Stormwater	\$ 18.200M	\$ 37.200M	\$ 37.100M	\$ 36.100M	\$ 36.100M
ADA Compl.	\$ 10.000M	\$ 10.000M	\$ 10.000M	\$ 10.000M	\$ 10.000M
W/C Fund	\$ 0.000M	\$ 5.000M	\$ 10.000M	\$ 10.000M	\$ 10.000M
P/L Fund	\$ <u>5.000M</u>	\$ <u>5.000M</u>	\$ <u>5.000M</u>	\$ <u>10.000M</u>	\$ <u>10.000M</u>
Total	\$ 91.525M	\$174.525M	\$185.575M	\$201.025M	\$212.475M

Total \$865.125M

Investors should not rely on this
information when making
investment decisions (see slide 3)



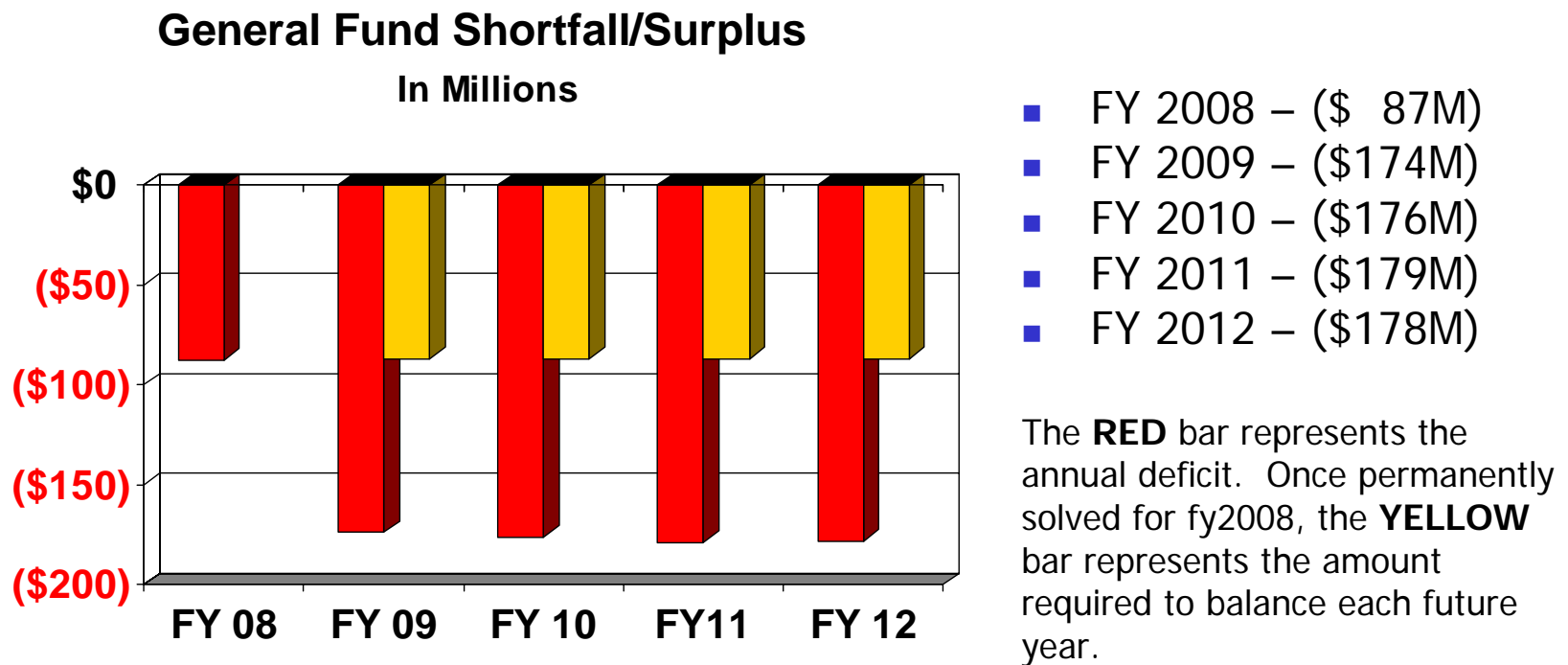
Deferred Maintenance/Capital – Water & Wastewater

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	
Water	\$150M	\$150M	\$150M	\$150M	
Wastewater	\$162.5M	\$162.5M	\$162.5M	\$162.5M	

- Total Project Value Water \$600M
- Total Project Value Wastewater \$650M

Investors should not rely on this
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investment decisions (see slide 3)

Net Results – The Challenge



Investors should not rely on this
information when making
investment decisions (see slide 3)